

# Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended .

Unit Name	Kalamazoo City EDC	County	KALAMAZOO	Type	OTHER	MuniCode	39-7-522
Opinion Date	7/31/2008	Audit Submitted	8/01/08	Fiscal Year	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

**Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".**

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="\$0.00"/>
General Fund Expenditure:	<input type="text" value="\$0.00"/>
Major Fund Deficit Amount:	<input type="text" value="\$0.00"/>

General Fund Balance:	<input type="text" value="\$0.00"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="\$0.00"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Stephen	Last Name	Blann	Ten Digit License Number	1101024801
CPA Street Address	675 Robinson Rd	City	Jackson	State	MI
				Zip Code	49203
				Telephone	(517) 787-6503
CPA Firm Name	Rehmann Robson	Unit's Street Address	241 W South St	City	Kalamazoo
				Zip Code	49007

**CITY OF KALAMAZOO, MICHIGAN**

**ECONOMIC DEVELOPMENT  
CORPORATION**

**Basic Financial Statements**

**For the Year Ended  
December 31, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF KALAMAZOO, MICHIGAN  
ECONOMIC DEVELOPMENT CORPORATION**

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT

June 30, 2008

Board of Directors  
Economic Development Corporation of the  
City of Kalamazoo  
Kalamazoo, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the ***Economic Development Corporation of the City of Kalamazoo, Michigan (a component unit of the City of Kalamazoo)***, as of and for the year ended December 31, 2007, which collectively comprise the Corporation's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Economic Development Corporation of the City of Kalamazoo, Michigan as of December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2008, on our consideration of the Economic Development Corporation of the City of Kalamazoo, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Corporation has not presented Management's Discussion and Analysis for the Economic Development Corporation as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of the basic financial statements.

# **BASIC FINANCIAL STATEMENTS**

**CITY OF KALAMAZOO, MICHIGAN**  
**Economic Development Corporation**  
**Statement of Net Assets and**  
**Governmental Fund Balance Sheet**  
**December 31, 2007**

	<u>General Fund</u>	<u>Full Accrual Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 24,737	\$ -	\$ 24,737
Notes receivable	1,629,559	-	1,629,559
Due from the City of Kalamazoo	89,905	-	89,905
	<u>1,744,201</u>	<u>-</u>	<u>1,744,201</u>
<b>Total assets</b>	<u><u>\$ 1,744,201</u></u>	<u>-</u>	<u>1,744,201</u>
<b>Liabilities</b>			
Accounts payable	\$ 1,213	-	1,213
Due to the City of Kalamazoo	3,847	-	3,847
Advances from the City of Kalamazoo	1,529,559	-	1,529,559
Deferred revenue	100,000	(100,000)	-
	<u>1,634,619</u>	<u>(100,000)</u>	<u>1,534,619</u>
<b>Total liabilities</b>	<u>1,634,619</u>	<u>(100,000)</u>	<u>1,534,619</u>
<b>Fund balance</b>			
Unreserved	<u>109,582</u>	<u>(109,582)</u>	<u>-</u>
	<u><u>\$ 1,744,201</u></u>		
<b>Total liabilities and fund balance</b>	<u><u>\$ 1,744,201</u></u>		
<b>Net assets</b>			
Unrestricted		<u><u>\$ 209,582</u></u>	<u><u>\$ 209,582</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF KALAMAZOO, MICHIGAN**  
**Economic Development Corporation**  
**Reconciliation of Fund Balance of the**  
**Governmental Fund to Net Assets**  
**December 31, 2007**

Fund balance - governmental fund	\$ 109,582
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Amounts reported in the statement of net assets are different because:

The focus of the governmental fund is on short-term financing. Some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred notes receivable	<u>100,000</u>
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Net assets	<u><u>\$ 209,582</u></u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF KALAMAZOO, MICHIGAN**  
**Economic Development Corporation**  
**Statement of Activities and**  
**Governmental Fund Revenues, Expenditures**  
**and Changes in Fund Balances**  
**For the Year Ended December 31, 2007**

	<u>General Fund</u>	<u>Full Accrual Adjustments</u>	<u>Statement of Activities</u>
<b>Revenue</b>			
Interest and rent	\$ 1,457	\$ -	\$ 1,457
Grant revenue	<u>132,163</u>	<u>-</u>	<u>132,163</u>
<b>Total revenue</b>	<u>133,620</u>	<u>-</u>	<u>133,620</u>
<b>Expenditures / expenses</b>			
Wages and benefits	90,138	-	90,138
Outside contractual services	<u>10,948</u>	<u>-</u>	<u>10,948</u>
<b>Total expenditures / expenses</b>	<u>101,086</u>	<u>-</u>	<u>101,086</u>
Revenue over (under) expenditures	32,534	(32,534)	-
Change in net assets	-	32,534	32,534
<b>Fund balance / net assets</b>			
Beginning of year	<u>77,048</u>	<u>100,000</u>	<u>177,048</u>
<b>End of year</b>	<u><u>\$ 109,582</u></u>	<u><u>\$ 100,000</u></u>	<u><u>\$ 209,582</u></u>

The accompanying notes are an integral part of these financial statements.



# **CITY OF KALAMAZOO, MICHIGAN ECONOMIC DEVELOPMENT CORPORATION**

## **Notes to Basic Financial Statements**

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### **1. NATURE OF ORGANIZATION**

**Organization** – The Economic Development Corporation (the “Corporation”) was incorporated by the City of Kalamazoo, Michigan (the “City”) on March 7, 1977. Its purpose is to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the City so as to provide needed services and facilities of such commercial enterprises to the residents of the City. The governing body of the Corporation is a Board of Directors consisting of at least nine members, with no more than three members being employed by the City. In certain situations, members of the Board of Directors may be removed by a majority vote of the Kalamazoo City Commission.

Since the passage of the 1986 Tax Reform Act, which curtailed the favorable treatment for EDC revenue bonds, the activities of the Corporation have significantly decreased. Accordingly, the Corporation has not prepared or approved a budget for 2007 as management and the Board believes it is not necessary for the level of activity in the Corporation.

**Bond and Note Issues** – The Corporation issues tax-exempt revenue bonds and notes under authority of the Michigan Economic Development Corporation Act. Proceeds of the debt issues are used to purchase or construct facilities that are leased to industrial and commercial enterprises under contracts which provide for sufficient revenue to satisfy principal and interest obligations of the debt issues. The property is transferred to the lessee at the time the indebtedness is paid in full.

The structure of the aforementioned “lease” transactions is such that the leased property and the related debt are not considered to be assets or general obligations of the Corporation and, accordingly, are not recognized in the financial statements of the Corporation.

As of December 31, 2007, there were six series of Economic Development Corporation bonds outstanding, with an aggregate principal amount payable of \$38,830,000.

# **CITY OF KALAMAZOO, MICHIGAN ECONOMIC DEVELOPMENT CORPORATION**

## **Notes to Basic Financial Statements**

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on this criteria, no component units are included in these financial statements.

The Corporation is included in the Comprehensive Annual Financial Report of the City of Kalamazoo, Michigan, as a discretely presented component unit.

***Government-wide and Fund Financial Statements*** – As permitted by GASB Statement No. 34, the Corporation uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. The general fund is reported as a separate column in the aforementioned financial statements.

***Measurement Focus, Basis of Accounting and Financial Statement Presentation*** – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

# **CITY OF KALAMAZOO, MICHIGAN ECONOMIC DEVELOPMENT CORPORATION**

## **Notes to Basic Financial Statements**

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### **3. DEPOSITS**

The Corporation's cash and cash equivalents at December 31, 2007 consisted of bank deposits with a carrying value of \$24,737.

*Custodial Credit Risk - Deposits.* For deposits, custodial credit risk is the risk, that in the event of a bank failure, the Corporation's deposits may not be returned to the government. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$24,737 at December 31, 2007. Federal depository insurance is applied to the City of Kalamazoo's deposits as a whole. Therefore, the portion of the Corporation's deposit covered by FDIC is not determinable.

The Corporation's banking and investment policy does not specifically address this risk, although the Corporation believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Corporation evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### **4. RISK MANAGEMENT**

The Economic Development Corporation is exposed to various risks of loss related to torts, errors and omissions. The Corporation participates in the City of Kalamazoo's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss funds. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the Economic Development Corporation that would require a liability to be recorded in the financial statements.

### **5. NOTES RECEIVABLE**

In 2007, the Corporation had loans receivable outstanding totaling \$1,629,559 to local businesses for purposes of redeveloping certain properties in downtown Kalamazoo. Of this amount \$287,036 is expected to be collected within one year. Under the terms of the agreements, the loans are secured by mortgages on the properties and personal guarantees from applicants. Loan repayment terms have been structured on a case-by-case basis, with certain loans amortized with principal and interest payments beginning immediately, and others beginning with interest-only payments. Certain loans have a balloon payment structure.

**CITY OF KALAMAZOO, MICHIGAN  
ECONOMIC DEVELOPMENT CORPORATION**

**Notes to Basic Financial Statements**

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The funding for these loans was derived from an advance from the City of Kalamazoo under its Economic Initiatives Fund program. Principal and interest payments from loan recipients are transferred to the Economic Initiatives Fund upon receipt; however, no interest is charged directly by the Economic Initiatives Fund to the Corporation for the advance.

\* \* \* \* \*



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

June 30, 2008

Board of Directors  
Economic Development Corporation of the  
City of Kalamazoo  
Kalamazoo, Michigan

We have audited the financial statements of the *Economic Development Corporation of the City of Kalamazoo, Michigan (a component unit of the City of Kalamazoo)*, as of and for the year ended December 31, 2007, and have issued our report thereon dated June 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Economic Development Corporation of the City of Kalamazoo, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Economic Development Corporation of the City of Kalamazoo, Michigan's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Economic Development Corporation of the City of Kalamazoo, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, looped initial 'L'.